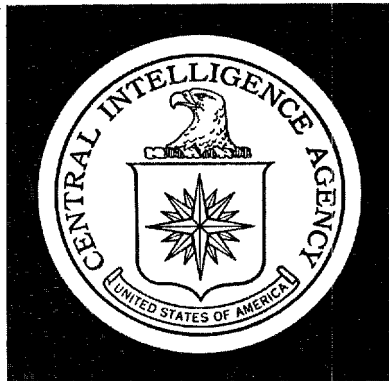


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State Department review completed

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**[South Vietnam:** The Communists have launched a new round of military action, described by several recent sources as the "May action phase."

This phase may last through May and probably will be divided by several periods of lull, similar to the pattern during the enemy's February-March "offensive."

[redacted] point to a larger military effort to follow within the next two months. So far, the shellings have been directed against allied military positions, perhaps in the hope of driving up the rate of US casualties and thus generating further domestic pressure on the US to seek an early end to the war.

Over 200 targets in South Vietnam have been hit by enemy mortar and rocket fire since the early morning hours of 12 May. There have been only a few follow-up ground attacks, but two in Tay Ninh Province northwest of Saigon left more than 250 enemy soldiers dead. There has been a sharp increase in terrorist attacks in the capital, with a dozen reported on 11 May. These incidents have been aimed primarily at police, government, and public utilities.

Communist guerrillas and local force units have been involved in most of the ground fighting. It is likely that the Communists will commit certain first-line units in concert with harassing shellings against key allied targets during this new offensive phase.

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Communist China - USSR: Peking has accepted a Soviet proposal for a meeting of the joint border river navigation committee in Khabarovsk next month. The Chinese presumably hope to use this forum to revive their claims to disputed islands in the Ussuri River.

The Chinese had not responded to two earlier Soviet proposals to renew talks on border demarcation which had broken down in 1964. Peking probably intends to manipulate discussion of navigation issues to press its claim that, under the treaties of 1858 and 1860 and "established principles of international law," Chen Pao (Damansky) and other Ussuri River islands are legally Chinese.

After the Sino-Soviet clash on 2 March, Peking charged that the 1964 border talks had foundered on Soviet unwillingness to recognize the 19th century treaties as "unequal treaties." Peking had offered to take these treaties as the basis for determining the boundary and resolving territorial disputes, but Moscow refused to give the Chinese an opening obviously aimed at legitimizing China's claims to vast territories in Siberia.

The agreement by the Chinese to hold navigation talks suggests that they believe they have a strong legal and geographic case on the disputed Ussuri islands. Moscow has not yet commented on the Chinese acceptance, but it would probably welcome agreement on practical measures that would ease river traffic problems. The Chinese almost certainly expect the Soviets to reject the broadening of navigation talks to include territorial issues, however, and they will seek to exploit this stand as further evidence of the USSR's "great power chauvinism" and of Moscow's attempts to perpetuate illegal occupation of Chinese territory.

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Hong Kong: (The government apparently is taking further steps to help secure the release of British correspondent Anthony Grey, who has been detained by Communist China since 1967.)

(The sentences of 13 leftists and Communists imprisoned for offenses committed during the Communists' "confrontation" in Hong Kong in 1967 were reduced by the governor on 9 May. Hong Kong Communist leaders have linked the imprisoned men, particularly 11 leftist newsmen, to the confinement of Grey. By the end of this year the Hong Kong government may release all 276 leftists and Communists imprisoned as a result of the disturbances.)

(Hong Kong authorities heretofore have been reluctant to release any of the prisoners prematurely in order to secure Grey's release because they believed such action would sanction Peking's "black-mail." Tensions have abated considerably in recent months, however, as a result of instructions from Peking that local Communists should avoid provoking the colonial authorities. The apparent decision by the Hong Kong authorities to act to help Grey may also have been induced by pressure from London to relax Sino-British tensions.)

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Brazil: (Rumblings of student discontent are again troubling the Costa e Silva government.)

(The government's expulsion or dismissal of many students and respected faculty members has begun to rouse normally apathetic student moderates to join protests organized by leftist activists. In Sao Paulo, a student strike has forced the suspension of most university classes. In the northeastern city of Recife, members of the medical faculty at the federal university have decided to defy the military by rejecting a list of students selected to be expelled for "subversion.")

(In order to forestall renewed student activity, the government is taking a tough line. For example, all 800 engineering students at the federal university in Recife have been required to submit a written defense by today or face expulsion.)

(Although the government's actions may swell the ranks of the protesters, factionalism among student leaders and the government's determination to stamp out student "subversion" will probably for the time being prevent effective protests on a nationwide scale. The evidence of growing dissatisfaction irritates military leaders, however, and may well cause them to renew their pressure on the President for more sweeping purges and punishments.)

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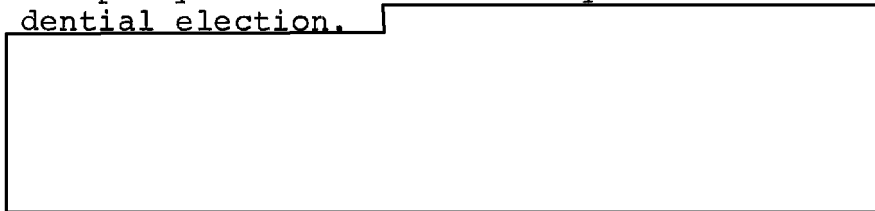
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Chile: Strains within President Frei's Christian Democratic Party are reaching serious proportions.

Leaders of the leftist wing of the party and of the youth group resigned last week. They stated that they do not plan to form a new political party but will start a "movement," open to the Marxist left, for the establishment of "popular unity."

These leftists, who include several members of Congress, have left the party in part because they hope that a candidate from their group could consolidate support from the Communists and Socialists for the presidential election in 1970. Ten days ago the Christian Democratic Party assembly voted 233 to 215 to run its own candidate rather than try to form an alliance with one or more of the leftist parties.

Although defectors are not numerous at present, their action is symptomatic of the disarray within the party little more than a year before the presidential election.



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Finland-Europe: The Finnish initiative concerning a European security conference is receiving a varied response.

West European governments do not believe the time is ripe for preparatory meetings leading to such a conference. They do not, however, want to appear too negative. Two NATO sessions this week will be devoted to discussions of the Finnish proposal. The UK is pushing for an agreed Allied position on the issue.

East European countries have welcomed the Finnish proposal but have thus far not commented extensively on it. The East Germans were pleased with the equal treatment the proposal accorded Pankow and Bonn.

Domestic Finnish reaction to the new call for a European security conference has been uniformly favorable. Parties in all parts of the political spectrum approve of the proposal as appropriate for neutral Finland to have made. Although foreign officials have speculated that Helsinki acted with Soviet prompting, the initiative no doubt reflects President Kekkonen's desire to play a larger role on the international stage as well. It also stems from his government's desire to deflect domestic leftists' criticism that it has been too passive on problems of world peace and security.

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Hungary: The first details of the regime's closely controlled political reform have been made public. The new proposal appears aimed largely at forestalling dangerous side effects of last year's economic reform.

Party politburo member Gyula Kallai, who is president of the National Assembly and a leading exponent of democratization from above, outlined proposed changes in a speech to party activists on 7 May. In essence, Kallai said the time has come for the party to give some content to "representative democracy" as practiced in Hungary.

Specifically, Kallai recommended strengthening the National Assembly and local governments, and suggested national and regional referenda on major issues. He called for a new advisory role for mass organizations, such as trade unions and the Popular Front, which might "assist in perfecting" party policies. Kallai also recommended paying higher salaries to fewer but better qualified people in order to obtain a cheaper, more responsive government apparatus. Such a move would strike at party hacks in the provinces. None of these proposals, however, allows any latitude for non-Communist political activity, nor do they entail significant loss of party control. Thus, the Hungarians apparently hope to escape the consequences of the runaway reform in Czechoslovakia.

Many aspects of this plan will be unpopular with conservatives in Hungary and elsewhere. Kallai recognized this when he attacked the hard-liners for insisting that democratization would weaken party control. How this argument is resolved will determine the future of the reforms.

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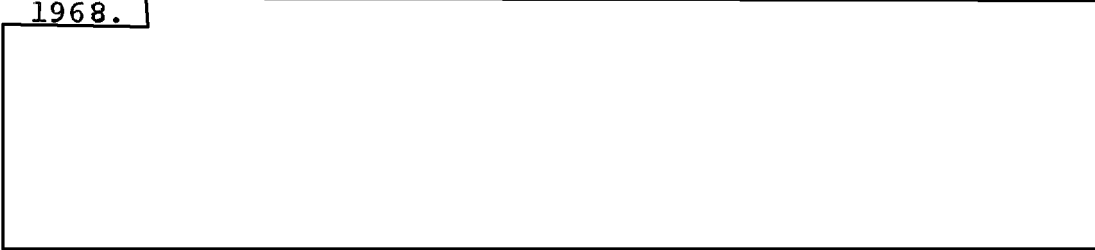
Czechoslovakia: Price increases, which may be introduced as early as tomorrow, are the first step in Prague's program to stabilize the economy.

The government has, however, acceded to a trade union demand that prices of certain goods and services--including basic foodstuffs, children's clothing, rents, basic fuels, and special commuting fares--will be frozen through this year.

The regime hopes the price increases will curb the current consumer buying spree and channel future wage increases into savings. Thus Prague expects to help check inflationary pressures and to keep the labor force reasonably content.

Government leaders have also announced a reduction in budgetary outlays and the introduction of limited wage and salary controls in inefficient enterprises as additional stabilizing measures.

The current truce between the trade unions and the government nonetheless appears to be an uneasy one. The trade unions are reported to be suspicious of official price statistics and have suggested using their own index of living costs. Moreover, the government has not promised that real wages will continue to increase or that the line will be held on prices other than those in its agreement with the trade unions for 1969. It is likely that living standards this year will rise more slowly than in 1968.



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Pakistan: An important East Pakistani opposition leader is demonstrating conflicting attitudes toward the martial law administration.

Speaking to US officials on 8 May, Sheikh Mujibur Rahman, a spokesman for East Pakistani autonomy, took a moderate approach toward the government. He conceded that his entire program, including the demand that East Pakistan have 56 percent of the representatives in any future parliament, was negotiable. The essential element, he pointed out, was that East Pakistan control its own finances.

Mujib explained that if West Pakistan were broken up into four separate administrative units as demanded by many opponents of the former Ayub government, East Pakistan would gain relative strength in the legislature. Mujib envisaged that representatives from the West Pakistani regions of Sind, Baluchistan, and the Northwest Frontier would often side with the Bengalis to prevent continued domination of the government by the Punjab region.

Earlier, however, Mujib, in giving a US Embassy official an account of his recent meeting with President Yahya Khan, had criticized the new government as a foreign military occupation of East Pakistan and declared that the Bengalis would fight if their demands were not met. He also said he had protested the alleged preparation of cases against members of his party for their actions during the disturbances which led to the imposition of martial law.

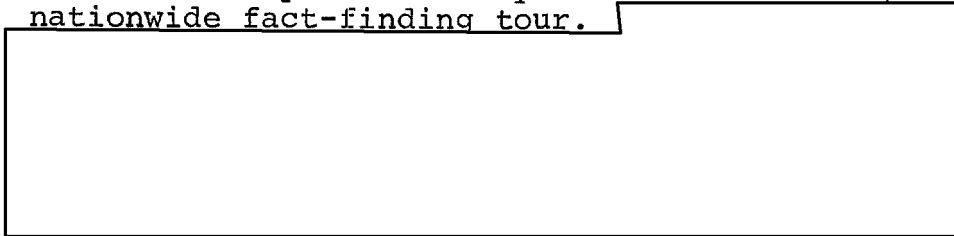
(Mujib's tougher attitude, echoed by one of his lieutenants, may have been intended to prompt the US to pressure the Yahya administration to accommodate Bengali grievances. On 8 May, for instance, Mujib told an American that the timing of elections

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would depend on Washington, because the martial law government needed American money.)

Meanwhile, there have been no political developments of overriding importance in West Pakistan since the completion early this month of Yahya's nationwide fact-finding tour.



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Western Europe: Uncertainty prevails in the foreign exchange markets despite the opening of the week on a hopeful note.

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Dealers are awaiting the release today of Britain's monthly trade figures for April and the announcement tomorrow of Germany's promised official controls on capital flows. Judgments about whether the recent round of speculation has been successfully blunted must await the market's reaction to these events later in the week.

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USSR: The two Soviet planetary probes launched last January will arrive at Venus this week. The probes probably are programmed to send back information on the Venusian environment during their parachute descent to the surface on 16 and 17 May. The Venus 5 and 6 spacecraft--each weighing about 2,400 pounds--are believed to be improved versions of Venus 4, which penetrated the planet's atmosphere in October 1967, but stopped transmitting data during its descent. Prior to Venus 5 and 6 the Soviets were successful only once--with Venus 4--in reaching the planet.

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Algeria: Some important ministerial shifts may be in the offing. A press announcement that Interior Minister Medeghri has assumed "interim responsibility" for finance adds substance to earlier rumors that Finance Minister Cherif Belkacem would be replaced. Belkacem is one of the original members of Boumediene's inner clique, but has disagreed with some aspects of Algerian economic policy. Another change involves the minister of commerce, who recently was named ambassador to Morocco. There is also a possibility that the minister of agriculture, whose post has had a rapid turnover rate, may be on the way out.



Guinea: President Touré's latest campaign against alleged imperialist-inspired conspirators, in progress since February, is scheduled to wind up tomorrow with a spectacle at the Conakry stadium. Details of the conspiracy will be disclosed to party militants; and sentences, possibly including death penalties, will presumably be announced.

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The campaign already has resulted in the arrest of approximately 30 critics of the regime and some tightening of Touré's control over the military. Faced with continued consumer shortages, Guineans are increasingly skeptical of the regime's perennial charge that imperialism lies at the root of all their troubles.



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Dahomey: The Zinsou government, already beset by intractable financial problems, a growing split within the army, and active coup plotting by its numerous civilian opponents, is now involved in a potentially dangerous imbroglio with students. On 10 May, following a one-day student strike, President Zinsou closed secondary schools in the country's two major cities and reportedly decided to expel a number of students. The strike ostensibly began over student grievances, but quickly developed into an attack on the President, who was charged with selling out to "French imperialism." There remains a threat of disruptive student demonstrations and sympathy strikes by workers, particularly government employees, who already are angry over Zinsou's attempts to cut some of their fringe benefits.

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Dominican Republic: The student arm of Juan Bosch's Dominican Revolutionary Party (PRD) ousted Communists from control of student elective offices at the national university on 7 May. The PRD group, profiting from deep ideological divisions among its opponents, based its campaign on Bosch's "popular dictatorship" thesis. The success of the PRD, however, is probably not indicative of any long-term campus trend toward a less radical stance. As national politicking intensifies in anticipation of presidential elections next year, the university is again likely to be a major headache of the Balaguer administration.

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